

A PRIMER
for
Selecting New Enterprises for Your Farm

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Preface

This publication is designed to help producers evaluate new enterprises for their farms or family businesses. It is based on a set of worksheets to help evaluate the **Profitability**, **Resource** requirements, **Information** needs, **Marketing** decisions, **Enthusiasm** for, and the **Risk** associated with a new enterprise. **PRIMER** is the acronym for these six factors. The text of the publication includes a discussion of each of these factors along with some introductory Yes/No/Maybe questions about each factor. There is also an introductory score sheet for each factor to get you thinking about the feasibility of a new endeavor. The worksheets at the end of the publication are more detailed and ask for information or ask questions that need to be answered *before* the decisions are made about the new enterprise.

This is not a substitute for a whole farm plan, business plan, or marketing plan. Nor does it serve as a substitute for partial budgeting, full-cost enterprise budgeting, or the development of a mission statement for the business. However, it does help the user ask the right questions to evaluate the economics of an enterprise or profit center within the current business, and it can help in developing all the planning tools mentioned above.

This publication was designed to work across a wide range of crop, livestock, value-added, or service enterprises. Therefore, some of the worksheets raise questions that may not apply to all enterprises. Users should tailor their responses to their specific situations and use all available information to make a decision. Also, the order of PRIMER elements does not mean that enterprise evaluation should flow in sequence from Profitability to Risk. There is no particular order meant to be implied by this guide. All the issues should be addressed together as each component influences the others. PRIMER is simply a convenient and useful way to present the information.

The text and worksheets in this publication are also available on the Agricultural Economics web page under Extension/Publications. The departmental web site is www.uky.edu/Ag/AgEcon/. Users may want to make multiple copies of the worksheets to evaluate different enterprises or to evaluate different scenarios of the same enterprise.

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Using This Publication

The PRIMER worksheet concept is introduced on page two with a preliminary score sheet for each element. Circle your most likely response on each score sheet. Add your points from all six score sheets and see where you fall in the score sheet summary. This may give you some early indication of whether to go on.

Each PRIMER section in the text opens with some thought provoking questions. These basic questions about you, your resources, your preferences, and your potential are a necessary, and often overlooked, basis for beginning a more formalized analysis. Check a response to each question. If you answered more Yes's than No's or Maybe's, then you are a good candidate to pursue your options in a more formalized and detailed analysis.

Each member of the family who will be affected by a new enterprise should also answer the questions. Compare your results. Look for areas of agreement. Beware of potential conflicts.

Finally, detailed worksheets are found at the end of the publication that allow you to proceed deeper into your evaluation. These PRIMER worksheets ask some specific questions that you need to answer before "moving ahead."

Introduction

Kentucky farmers must deal with a number of questions as they seek to diversify their farm businesses. Farmers often ask, "What can I produce to sustain or improve profits on my farm?" Policy makers and farmers are often seeking a miracle crop or livestock enterprise that will bring immediate prosperity. The search for "**what**" to produce has led many farmers to experiment with new and different crop and livestock opportunities with varying degrees of success. Success or failure often depends on how well issues beyond the "**what**" are dealt with. Perhaps the major emphasis should not be on the "**What to produce?**" but on the process of "**How to select the right enterprise for my farm.**"

New or expanded enterprises are likely to have a different set of financial, marketing, management, and policy options than growers have experienced with traditional enterprises. Focusing on "**How to select the right enterprise**" instead of the "**What to produce**" will allow you to thoroughly evaluate a wide range of options instead of concentrating on a few "pie in the sky" alternatives that might work for a few producers and fail for many.



The PRIMER Method

School children used to learn to read from a Primer, a thin book that laid the foundation to a lifetime of reading. Similarly, an agricultural PRIMER can lay the foundation to evaluate a wide range of farming options.

The letters in PRIMER represent the basic factors to consider when making a decision about new or expanded enterprises for the farm.

P

stands for profitability,

R

stands for resources,

I

represents information,

M

represents marketing,

E

stands for enthusiasm, and

R

stands for risk.

These six factors: **profitability, resources, information, marketing, enthusiasm, and risk** are the basic elements which should drive any decision to adopt a new enterprise on the farm.

PRIMER Score Sheets

Profitability ○

Circle your most likely response

Cash cow	10
Probably profitable - just needs a little planning	8
Profitable if I can get some start-up funds	6
Profitable, but easily duplicated and limited market	4
Can make a profit if all the stars line up right	2
Profits unlikely, but still looks like fun	0

Resources ○

Circle your most likely response

Have everything I need	10
Need a few minor, low-cost items	8
Missing one important resource, but can acquire it at some expense	6
No experience with enterprise, but can develop it in time	4
No experience and needing to acquire some major resources	2
Starting from scratch	0

Information ○

Circle your most likely response

Production & marketing info well in hand	10
Need to do a little homework	8
Need to do a fair amount of homework	6
No one has ever seen this done here before, but can find info elsewhere	4
No access to computer, extension or library	2
Starting from scratch	0

Marketing ○

Circle your most likely response

Promising, accessible markets already exist - people are begging for the product	10
Accessible markets but will take a little effort to develop	8
New retailing or cooperative marketing will have to be developed, but still a good market	6
It may take some time and \$ to help consumers appreciate the value of this product/service	4
The market is pretty well saturated with similar products	2
Selling ice cubes to Eskimos	0

Enthusiasm ○

Circle your most likely response

I can't sleep at night, this idea is so exciting	10
I'm excited about it but some in my family are reluctant	8
It's as good an idea as any of the others I've come up with	6
I could get excited, but only if it works out fairly soon	4
I'm out at the first sign of rough sailing	2
Why do I even have to do this?	0

Risk ○

Circle your most likely response

I'm very comfortable with the return estimates relative to the risk involved	10
I'm reasonably comfortable	8
Somewhat comfortable	6
It looks OK, there's just a lot still unknown	4
I think I could make it, but there are possibilities for significant loss	2
I'm better off buying a lotto ticket	0

Score Sheet Summary ○

Very promising, move ahead	48-60
Has promise, but will need some work	38-47
Has promise and some serious hurdles. Carefully evaluate whether this is a good fit	28-37

Profitability

The first of the PRIMER factors is **Profitability**. Clearly any new or expanded enterprise must add to the overall profits of the farm.

Question	Yes	No	Maybe
Does this enterprise have promise to deliver large enough revenue relative to the investment required?	"	"	"
Can I build in special competitive factors that can enable profits to be durable over time?	"	"	"
Is there a considerable up front cost to be incurred?	"	"	"
Can I set specific, measurable, attainable profit goals for this enterprise?	"	"	"

New enterprises should be budgeted closely with estimates of costs and returns. Many proponents of new or unique enterprises tend to be overly optimistic about potential returns. The kind of questions to ask about a budget include: "What if prices are 25% below these estimates?", "What if some disease or weather factor cuts my yield by a third?", "What if it takes twice as much labor as I've anticipated?" These types of questions can help evaluate both the relative profitability and riskiness of the enterprise.



Profitability can be identified by deducting various kinds of expenses from total estimated revenue. The **PROFITABILITY WORKSHEETS** (found at the end of this publication) begin with estimating a total revenue amount as the total yield times the expected price. This can be estimated on a per

acre, per head, or whole farm basis. The total revenue amount, of course, can vary widely, and will need to be revisited when we come to the marketing and risk worksheets. Still, an estimate of total revenue needs to be made using the best information available on what can be expected for yield and price to the farmer.

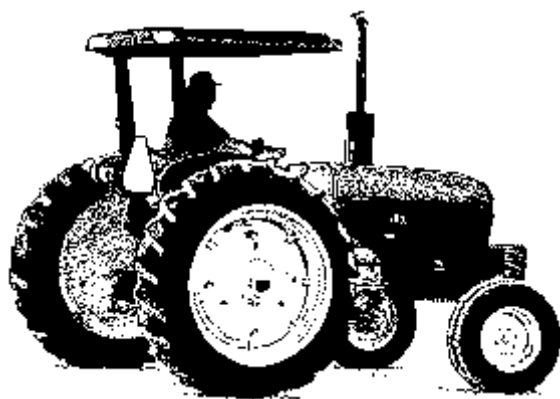
The **PROFITABILITY WORKSHEETS** provide a first estimate of the level of profitability by subtracting cash costs from the total revenue. It is generally helpful to organize these cash costs by category, such as fertilizer, feed, utilities, hired labor and marketing costs. It is also helpful to compare returns over these cash costs when considering several different enterprises.

This provides us with only part of the picture, however. There are additional costs that are very real, including loan payments, the use of equipment, buildings, and other long term assets, family labor, management, and risk taking. Enterprises can vary widely relative to these additional costs. If the budget is constructed on a per unit basis, be sure to multiply by the anticipated number of units to see if total returns will be adequate to make loan payments, to pay fixed costs, and offer a return to family or operator labor over the long run.

Other profitability factors to consider are length of run and comparative advantage. A new enterprise with a payoff in five years may look good strictly from a profitability standpoint but may not pay the bills between now and then. Some agricultural enterprises have short productions cycles while others may require months or years to achieve profitability. Fruit crops, Christmas trees, specialty timber, and other similar enterprises can involve significant cash outlays in the initial establishment phase. Intensive management may be required during the early development phase. Cash revenue from future harvests may not be returned to the

investment for years. The second **PROFITABILITY WORKSHEET** is provided to estimate both annual and long run cash flow.

The income needs and debt loads of the farm figure heavily into the choice of enterprises. Alternatives for which a farm or a region has some relative advantage in production or lower costs is more likely to be successful. Identifying some geographic, climate, or cost advantage will help identify good alternatives or weed out bad alternatives.



Resources

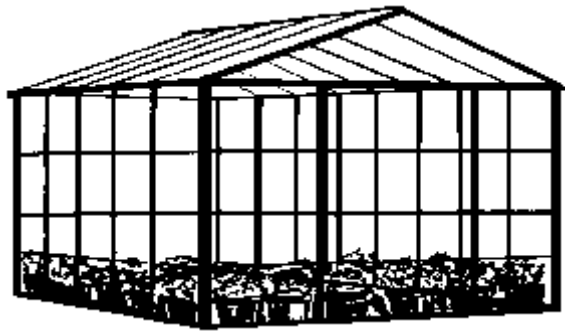
The second PRIMER factor is **Resources**. New or expanded enterprises often require new or expanded resources.

Question	Yes	No	Maybe
Is this enterprise adaptable to my area?	"	"	"
Do I have experience with this enterprise?	"	"	"
Do I have, or can I get, the resources to produce this product?	"	"	"
Are highly specialized resources required that have limited alternative uses?	"	"	"

A new enterprise may require investment in machinery, buildings, or land. Labor and management requirements may be different for new enterprises. Farmers already producing labor intensive crops often look toward other labor intensive enterprises as supplements or alternatives. New enterprises with labor requirements that complement rather than conflict with the labor peaks of current farm enterprises may fit well to keep laborers more fully employed. The best resource situation for new or expanded enterprises is when existing resources can be used or adapted. Large investments in capital resources for untried or risky alternatives may not be well received at the lender's desk, especially if they are highly specialized. If current resources of land, labor, and capital can be used, then the risk of entering into a new enterprise is reduced.

The **RESOURCES WORKSHEET** provides a framework for organizing an **Inventory** of current and needed resources for a potential new enterprise. Land, buildings, machinery, start-up capital, and labor are each listed as resources to consider. Additional resources may need to be considered in this worksheet, as well. Long-term inventory, such as seedlings, may be required.

Construction of certain structures, such as ponds, trellises, or fencing may need to take place before production begins. The inventory of resources that need to be purchased should include, to the extent possible, an identification of the source of the resource and an estimate of the cost.



Managerial ability and experience are difficult resources to measure or to acquire easily and quickly. Management includes planning and organizing skills. These can be learned. Staffing and directing skills are important if new employees are to be hired and trained. Carefully consider the management intensity level of any new enterprise. Enterprises for which timeliness and high levels of production skills are important will require corresponding high levels of management.

Labor is often one of the limiting resources when examining the feasibility of a new enterprise. The **RESOURCES WORKSHEET** provides a way to compare labor needs with current resources and to plan for any additional hired labor that may be necessary on a month-by-month basis.

Use the **Activities Map** and the **Labor Availability and Requirements** components of the worksheet to assess labor needs. Complete the **Activities Map** to determine the timing of various tasks.

The labor worksheet begins with an estimate of available family and hired labor. Each full time hired worker can be expected to provide between 160-200 hours per month. Labor requirements for current farm enterprises should then be deducted from the total labor available each month. This provides an estimate of the labor available for new or additional enterprises. The next row in the worksheet calls for an estimate of the labor demands anticipated for the new enterprise. Subtracting the new labor required from the current labor available should provide an estimate of the amount of additional hired labor that will be required and the period during which it will need to be available.

Information

The I in PRIMER is for **Information**. Quality information is critical for making good decisions in any enterprise.

Question	Yes	No	Maybe
Do I have the "know how" to produce and sell this product?	"	"	"
If I don't "know how", do I know who to ask?	"	"	"
Am I willing and able to approach different people for advice?	"	"	"
Does market research and development appeal to me?	"	"	"
Is most of the production information readily available?	"	"	"

Good information about unusual or exotic alternatives may be scarce and expensive. In fact, an alternative enterprise for some producers is providing information, for a fee, to other interested parties. The more unusual the enterprise the less likely that conventional sources will be able to meet the need for technical or economic information. Farmers have benefitted from several generations of high quality, research based information delivered through the Cooperative Extension Service into every county in the state. Kentucky Extension agents are well informed, but they shouldn't be expected to be experts on every one of hundreds of agricultural alternatives. Private or trade organizations may be alternative sources of information, but membership or consulting fees should be anticipated.

An inventory of useful information sources for a particular enterprise can become a valuable resource in its own right, and can greatly aid in on-going management decisions. The

INFORMATION WORKSHEET provides a means for organizing key information sources by subject matter area; production resources, financial resources, and marketing resources.

There are several sources that can provide a wealth of information on each of these areas. The worksheet allows the farmer to compile a listing of key people with special knowledge of the enterprise, including other farmers, agents and specialists, and others. Trade shows and associations can also provide valuable information, and may be offered on a state,



regional or national level. Computer web sites and Internet communications can provide specialized information from around the world. While this information may need to be altered to adapt to current growing and resource conditions, it can also be used to access a wide range of expertise.

Maintaining accurate and current information, including detailed record keeping systems, should be considered a cost of taking on a new enterprise. It usually takes some time to develop the management expertise required to bring the enterprise to its profit potential. Good information management, which includes knowing how to efficiently sift through the mountain of potentially useful information, can speed the farmer toward better decisions with respect to enterprise development.

Marketing

The M in PRIMER is for **Marketing**. This component is likely the key to success or failure of any new enterprise.

Question	Yes	No	Maybe
Am I willing to spend as much effort in marketing as in production?	"	"	"
Is "selling" a new product to a customer something I'm comfortable with?	"	"	"
Is having people "drop in" at the farm something I can tolerate?	"	"	"
Are there several promising customers that could be pursued?	"	"	"
Will I have to do the majority of the marketing?	"	"	"
Will it require a lot of effort to prepare the product for market?	"	"	"

Many farm products have typically been sold as commodities rather than marketed with a view toward developing greater value delivery and profit opportunities. A commodity marketing strategy may be difficult to sustain for certain alternative enterprises, especially those that may involve specialized market channels. Many alternative enterprises have limited sales potential, emphasizing small, niche markets that may be quickly oversupplied if too many producers enter the market. These are called "thin markets" and thin markets are susceptible to wide price swings with over and underproduction. Often the most successful niche marketers are those who zealously develop and guard their market outlets. Skill in marketing will often be the most important success factor in the sustainability of a new enterprise.

Sales and communication skills, good customer relationships, cooperation with other producers, and a determination to successfully develop an

enterprise are all resources good marketing people depend on. These resources can be developed, but may require some time and patience. Truly different and innovative enterprises will likely involve a commitment to product and market development; working with customers to communicate the features and benefits of the product.

Another key factor in marketing products includes product differentiation. Manufacturers of most consumer goods recognize the importance of



setting their product apart from all others by the use of brand names, advertising, quality differences, and other distinctive features of their product that consumers especially value. Similar opportunities exist to differentiate many agricultural products. Careful research on customer/consumer preferences can reveal some of the more promising unique product features that can be developed. Continuous product improvement, building the marketing effort around valued product features, and having a well defined market plan may be the difference between the ultimate success or failure of the enterprise.

Value added is a general concept that involves developing a product beyond the commodity stage. Product differentiation can be related to this. Many opportunities often exist to add value

to a particular product. Processing, storing, packaging, delivery and other services, offering a range of product qualities, and bundling with other products are each examples of ways farmers can create a greater value to certain kinds of products. Customers value additional features that are added to the basic product. In many cases the farmer is in a good position to add value to a product, and can do so profitably. Remember, however, the cost of adding value must be lower than the added value to increase profits.

Not all marketing channels are the same or offer opportunities consistent with the goals the farmer may have for an enterprise.



Wholesale, retail, coops, contracts, and direct sales (on- or off-farm) are just some of the outlets that may

be available. There are unique benefits and costs associated with each channel, and each channel must be evaluated for its current marketing suitability and profit potential.

The first **MARKETING WORKSHEET** allows the farmer to rate some market factors and opportunities. The second worksheet helps explore market development needs and value-adding opportunities. The third worksheet asks about some additional product considerations.

The final **MARKETING WORKSHEET** allows for comparison of several different markets. Wholesale markets, larger volume distribution and sales to firms that resell and redistribute the

product to retailers, are quite different from direct farmer-to-consumer or on-farm kinds of markets. Many different marketing channels exist, each with distinctive product and service needs, opportunities, and challenges. Specific wholesale markets can include selling through brokers, marketing cooperatives, or other individual firms that deal with a variety of retailers. Direct markets can include farmer-to-retailer, institutional markets, such as restaurants, hotels, hospitals, schools, and businesses, and farmer-to-consumer, such as farm markets or subscription delivery. There are additional innovative ways to market product right on the farm, including pick-your-own and entertainment farming.

The worksheet should help assess the advantages and disadvantages of various marketing channels. Each channel will have various features commending it, but will also have certain limitations. Different marketing channels may be more suitable for different stages of the long-term enterprise development process. The proximity of the farm to a market, the reputation of key firms or persons involved, and the degree of farmer-customer interaction can each be key features toward evaluating the relative attractiveness of the different channels.

There are typically a variety of fees that correspond to the different channels. Gain full knowledge of these fees while developing a marketing strategy.

Prices received by the grower often vary widely across marketing channels. Research on historical prices, trends, and reasonable estimates of upper and lower bounds should be included here. It may be difficult to get good price information for truly unique products that have little market history. Still, dialogue with prospective customers in selected markets should provide means for making an estimate. A reasonable assessment of the sales volume that could be moved through different channels will help to identify a total

revenue estimate. The total revenue potential from on-farm sales of a product may be quite limited compared to the potential of a marketing cooperative despite the higher price that might be found through on-farm sales.

Partners should be chosen carefully for any business venture. Many new enterprises are inherently risky. Finding firms or partners with a history of successful marketing experience can



minimize some of the marketing risk. Growth potential within a particular marketing channel should also be considered and compared to the growth objectives and goal the farmer has for the enterprise in general.

Different marketing channels offer different degrees of value-adding opportunity for the farmer. This may be an important consideration in which marketing channel to choose. Long-term goals for the product may eventually include additional processing, packaging, developing additional related products or moving into related but different market channels. The marketing worksheets include sections for identifying promising value-adding opportunities comparing these across different marketing channels.

A good marketing program will feed knowledge about key consumer preferences back into a product improvement program. Quality improvements through new variety research, new production or processing techniques, or better post-harvest handling can translate into a strong market development program. Product development that is responsive to customer needs builds in a competitive advantage for the enterprise. Partners that can assist in the on-going product development process need to be identified.

The creation of new market opportunities may require partnership with other producers. Certain market channels may require larger volumes or longer season deliveries than can be provided from an individual operation. Steady markets that pay well can be developed in many cases when desired delivery volume, timing, and quality can be worked out. This may involve joint marketing efforts through newly formed cooperatives or associations. The development of these markets can be critical when smaller direct farmer-to-consumer markets become saturated.

Enthusiasm

The E in PRIMER stands for **Enthusiasm**. It perhaps could also stand for emotion or entrepreneurial ability.

Question	Yes	No	Maybe
Is this something I will enjoy doing?	"	"	"
Is there enough variety in the production and marketing activity to keep this interesting?	"	"	"
Is this something I can get better at with practice?	"	"	"

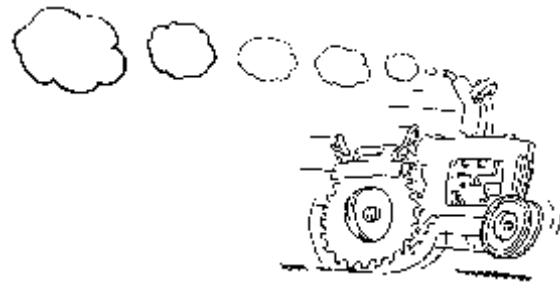
Few endeavors in life or in business are going to be successful if enthusiasm is missing from the equation. Liking what you do is a key to being good at it. On the **ENTHUSIASM WORKSHEET** list three good reasons for starting up your new enterprise. You may have more than three, but you should have *at least* three good reasons.

In the optimism of planning a new enterprise, it may be difficult to think of reasons for getting out of business. However, now is the time to set some benchmarks that would help you know when it's time to call it quits. Weeks, months, or even years into an endeavor your judgment may be clouded by the investment of time, dollars, and emotion that has gone into your enterprise. Sunk costs never provide a very good basis for decision making, but sunk costs along with a strong dose of pride and tradition have kept many farmers in business long after the economic conditions have suggested otherwise.

On the **ENTHUSIASM WORKSHEET** list three good reasons for getting out of (or not getting into) this enterprise. During the evaluation stage you are likely to be as objective as you will ever be. Give serious thought to these reasons and keep them in mind should the enterprise not turn out to be quite as good as expected. Remember that while

enthusiasm and strong emotions can be beneficial as motivational factors, strong emotional ties to an enterprise can also cloud the objective judgment of the best managers.

The final component of the **ENTHUSIASM WORKSHEET** is a listing of goals for the new enterprise. While the goal exercise is found near the end of the PRIMER worksheets, it really suggests one of the first questions that should be asked of any new endeavor, "Why do I want to do this?" A good set of specific, measurable, and attainable goals will help answer this question. There should be short, intermediate, and long run goals for the enterprise and these goals should be reviewed at least annually to assess progress or to allow for revision.



Enthusiasm and progress toward goals can sometimes be difficult to observe or measure. However, successful managers almost always have a clear picture of where they are headed, they enjoy what they do and, they work hard at it.

Risk

The final R in PRIMER is for **Risk**. This may include production, financial, or marketing risk.

Question	Yes	No	Maybe
Is this enterprise adaptable to my area?	"	"	"
Are there significant sources of production risk?	"	"	"
Are there significant sources of financial risk?	"	"	"
Are there significant sources of marketing risk?	"	"	"

Many new enterprises or modifications to conventional enterprises are often referred to as alternative enterprises. Alternative enterprises differ from traditional, or conventional, enterprises in that they are usually subject to more production and market risk. These risks also translate into financial risk as lenders view nontraditional enterprises as greater credit risks. In addition, few alternative enterprises have the risk dampening effects of government programs to offset wide swings in production and price. There may be legal risks associated with new enterprises in the form of licensing and taxing requirements along with local, state, or federal regulations. Human risks relating to liability issues, labor quality and quantity, and managerial ability should also be considered.

Riskier enterprises require different risk

management strategies. Diversification, irrigation, insurance, marketing plans, contracts, credit reserves, and low debt loads are only a few strategies that should be considered in evaluating and adopting new enterprises. Keep in mind that the more unusual or obscure the enterprise, the riskier it will be. The **RISK WORKSHEET** suggests some production, financial, and market risks that should be considered. Some strategy should be in place to deal with each of the risks that are associated with the new enterprise.



Conclusion

Successful farmers have always identified the enterprises that offer them the best combination of profit, stability, and satisfaction for the resources available on their farm. Successful farmers will continue to seek and find the next best alternative available to them. It may be an established enterprise with improved management practices or it may be a completely new enterprise with new information requirements, new marketing skills, new risks, and new management practices.

The PRIMER evaluation method is a tool to help farmers select the right enterprises for their farms. However, an understanding of these factors will also assist educators, lenders, policy makers, and agribusinesses as they support or participate with the farmers in new endeavors. Farmers will not be the only ones affected by new alternatives. Extension and vocational educators will also be called on for information about new and different enterprises. Lenders will be asked for investment capital for enterprises about which they have little knowledge of the production or marketing risks involved.

Policy makers will need to understand the implications of new farm products with little or no history in the public policy arena and a limited base of support. Farm input suppliers and purchasers of products will likely be faced with broader inventories and a more diverse clientele with a wider range of needs and desires than ever before. Information demands from all these groups will increase as Kentucky agriculture becomes even more diverse.

Farmers, educators, lenders, agribusinesses, and policy makers will be required to evaluate the new production, market, and policy implications of a changing Kentucky agriculture, whatever the future holds. The PRIMER method is one tool to aid that evaluation.

Appendix - PRIMER Worksheets

PROFITABILITY 1: enterprise budgeting

PROFITABILITY 2: annual and long run cash flow budgeting

RESOURCES: inventory, activities map, and labor flow

INFORMATION: sources and costs

MARKETING 1: rating market factors

MARKETING 2: market development

MARKETING 3: additional product considerations

MARKETING 4: market channels

ENTHUSIASM: goals and justification

RISK 1: production and financial risk

RISK 2: market risk

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Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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PROFITABILITY 1

Use this worksheet to estimate a budget for the proposed enterprise on a per acre, per head, or whole enterprise basis. This generic budget worksheet can be used for crops or livestock.

Gross Returns

Amount		times Price		equals	
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Cash Costs

Quantity					
Seed		times Price		equals	
Fertilizer		times Price		equals	
Lime		times Price		equals	
Pesticides		times Price		equals	
		times Price		equals	
		times Price		equals	
Feed		times Price		equals	
Vet supplies		times Price		equals	
Mineral		times Price		equals	
		times Price		equals	
Fuel		times Price		equals	
Electricity		times Price		equals	
Water		times Price		equals	
		times Price		equals	
Hired Labor		times Price		equals	
Machine Hire		times Price		equals	
		times Price		equals	
Mkt. Fees		times Price		equals	
Packaging		times Price		equals	
Transportation		times Price		equals	
		times Price		equals	
		times Price		equals	
		times Price		equals	
		times Price		equals	
		times Price		equals	
Total Cash Costs					

Gross Returns minus Total Cash Costs equals Return over Cash Costs

This is the amount left over to pay loan payments, depreciation on capital assets, investment on owned capital, payments for family labor, and a payment for management and risk taking.

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Risk

PROFITABILITY 2

Use this worksheet to estimate the amount and timing of cash flowing into and out of the business. One table is for a typical year, the other is for projects whose cash flows will vary each year.

Annual Cash Flow Budget (Typical year)

[illegible]

Long Run Cash Flow Budget for Multi-Year Projects

[illegible]

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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REOURCES

Use this worksheet to inventory available resources and to estimate resources to be purchased or hired.

Inventory		Currently Available	To Be Purchased/Hired	
Item	Amount/Size/Capacity		Source	Cost
Land				
Bldg/Facilities				
Machinery				
Water				
Start-up Capital				
Human Resources				
Mgt Ability				
Mkt Ability				
Experience				

Activities Map

Place an X in the appropriate time period

[illegible]

Labor Availability and Requirements

[illegible]

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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INFORMATION

Use this worksheet to determine information needs, available sources, and potential costs of information.

Production information: Books, extension publications, magazines, Internet, etc.

Description	Source	Cost

Financial Information: Balance sheets, income statements, cash flow budgets, etc.

Description	Source	Cost

Marketing Information: Potential outlets, input suppliers, price trends, etc.

Description	Source	Cost

Human Resources: Consultants, specialists, attorneys, veterinarians, etc.

Name	Address	Phone	Cost

Educational opportunities: Trade shows, Extension meetings, short courses, etc.

Description	Date	Location	Cost

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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MARKETING 1

Rate the following market factors or opportunities on a scale of 1 to 7

	Little or none					Considerable
Market saturation	1	2	3	4	5	6

	Little or none					Considerable
Consumer awareness	1	2	3	4	5	6

	Little or none					Considerable
Premium for KY product	1	2	3	4	5	6

	Little or none					Considerable
Regulation, inspection, grading	1	2	3	4	5	6

	Little or none					Considerable
Existing grading and distribution infrastructure	1	2	3	4	5	6

	Little or none					Considerable
Opportunity for branding	1	2	3	4	5	6

	Little or none					Considerable
Opportunity for service add-ons	1	2	3	4	5	6

	Little or none					Considerable
Opportunity to differentiate product	1	2	3	4	5	6

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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MARKETING 2

Market Development

Is this product relatively new to most consumers within your targeted markets?

List the top three factors necessary to strengthen this product within your targeted market.

1.
2.
3.

Will you need to be involved in consumer product promotion or education?

If so, what approaches may be useful to build consumer awareness and interest in your product?

What partners may have a shared interest in developing market opportunities for this product?

Other producers, local retailers, consumer groups, others?

Is market development dependent on shared marketing with other producers?

Where might there be opportunities for cooperative effort?

Are you willing to work with other producers to develop new market opportunities?

Value-Adding Opportunities

What are the three most promising value-adding opportunities that you may eventually pursue?

1.
2.
3.

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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MARKETING 3

Additional Product Considerations

What special quality considerations do you anticipate will be expected from your major targeted markets?

What opportunities are available to improve features of the product through on-going product development?

Where are product improvements likely to come from? University research? Own farm research? Other?

Is the success of this product dependent on consumers recognizing distinctive features about the product?

Identify the three features you think customers/consumers value the most about your product

1.
-
2.
-
3.
-

How are these features promoted?

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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MARKETING 4

Use this worksheet to compare alternative marketing channels

TARGET MARKETS

Product & Market Characteristics	Wholesale Markets	Direct Markets	On-Farm/ Pick-Your Own
Location			
Key Firm(s)			
Number of farmer/customer transactions per year			
Days/year devoted to marketing			

Marketing Fees (\$ total)

Storage			
Packaging			
Handling & delivery			
Advertising			
Insurance (marketing related)			
Licensing/Legal Fees			
Membership fees			
Other			
Total Marketing Fees			

Prices

Historical average (3-5 yrs)			
Lower bound			
Upper bound			
Target sales volume (units)			
Total revenue potential			

Market Reliability

Years firm or market has been established			
Growth potential			

Value-Adding Opportunities for the Farmer

(limited, some, many)

Additional customer services			
Special packaging			
Delivery			
Processing			
Preserving			
Special promotion			
Other			

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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ENTHUSIASM

Use this worksheet to determine how bad you want to get in and how bad you want to stay in

List three good reasons for getting INTO this enterprise

1.
2.
3.

List three good reasons for getting OUT of (or not getting into) this enterprise

1.
2.
3.

List your specific goals for this enterprise

1st Year
Within 5 Years
10 Years

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
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RISK 1

Use this worksheet to anticipate what can go wrong and what can be done about it

Production Risks

Is this enterprise sensitive to sudden changes or extremes in weather conditions? If so, how?

Local climate conditions you should know for your location:

50% Frost probability date

10% Frost probability date

Average annual rainfall

Average monthly rainfall

Spring	Fall

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Describe your strategy for dealing with a prolonged drought.

What are your major weed, insect, or disease problems?

What cultural, mechanical, or chemical control practices are available?

Will you need to use any restricted use pesticides?

Do you have a current pesticide certification card?

Will the success of the enterprise be jeopardized if a particular machine or implement breaks down at a key time?

Do you have access to backup equipment?

Is the enterprise dependent on the availability of reliable seasonal labor?

Financial Risks

How much capital will be borrowed?

What are the terms of the loan?

Length

Interest rate

Periodic payment

How long will it take for profits from this enterprise to payback the initial investment cost?

Financial measures you should know for your business:

Liquidity ratio

Debt/Asset ratio

Return on Assets

Net Farm Income

Repayment Capacity

Are other enterprises or off-farm income available to offset negative cash flows due to crop failure or low prices?

A PRIMER for selecting enterprises for your farm

Profitability	Resources	Information	Marketing	Enthusiasm	Risk
---------------	-----------	-------------	-----------	------------	------

RISK 2

Use this worksheet to anticipate what can go wrong and what can be done about it

Financial Risks (con't)

What are the liabilities you expect to be exposed to in development of this enterprise?

What level of insurance coverage (and at what cost) will you need for this enterprise?

Crop production _____

Liability _____

Worker's Comp _____

Crop revenue _____

Property _____

Unemployment _____

Market Risks

How much seasonal price variability exists for your product? What are the seasonal high and low prices?

What is the duration of high and low prices?

Are you trying to target a market window (peak price)?

If so, what factors appear to create this market window?

Is your product perishable?

If timely harvest and/or handling and storage after harvest are critical to quality and price, what measures can be taken to maintain quality?

What recourse do you have for default on payments for product sold?

Are food safety concerns an issue?

Can you identify critical control factors to ensure food safety?

Are livestock wastes or by-product disposal a concern?

Are waste management and water quality plans in place?

Calculate your break-even price needed to cover cash costs. Divide the cash costs from the PROFITABILITY WORKSHEET by the amount of product produced to determine the break-even price per unit.

Cash costs from PROFITABILITY WORKSHEET
divided by the amount of product produced
equals break-even price to cover cash costs

Does the market consistently offer a price above this break-even price?

Will your estimated market price cover these cash costs and leave enough to pay debts, depreciation, and an adequate return to family labor?
